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SUBJECT: PAKISTAN'S PETROLEUM MINISTRY ON POSSIBILITIES FOR
IMPORTED LNG

1. (SBU) Summary: In response to its chronic and worsening natural gas shortage, the GOP will "most likely" award contracts to two firms -- 4Gas and a Vitol-FOTCO consortium -- to build floating LNG re-gasification terminals, according to Ministry of Petroleum and Natural Resources Special Secretary G.A. Sabri. He said the GOP had set an internal deadline of December 31 to formally approve the projects as well as to enter into long-term LNG supply contracts. The terminals would be completed in 18 to 24 months and supply up to 800 mcf/day of natural gas. The high BTU fuel would be used primarily for power generation, not domestic use. Sabri said Sui Southern Gas Pipeline Limited (SSGPL) had the capacity and finances to quickly build the 20 km of pipeline needed to off-take the gas, but worried that the Port Qasim Authority's (PQA) lack of technical and organizational capacity to dredge the required navigation canal could delay the projects. If the LNG projects go as planned, it would be a significant step to close Pakistan's current 600 mcf/day gas shortfall, preventing the imposition of draconian gas rationing measures and adding up to 4000 MW to the national power grid. End Summary.

Gas Shortage Growing Acute

2. (SBU) Despite almost daily reports in the media of draconian GOP plans to address Pakistan's chronic natural gas shortage - including cutting off supplies to all commercial enterprises two days per week, rationing of compressed natural gas (CNG) used for automobiles - Ministry of Petroleum and Natural Resources Special Secretary G.A. Sabri told S/SRAP Senior Economic Advisor and Econoff October 27 that it is unlikely that any of these measures will be taken. Although Pakistan's current natural gas shortfall of some 600 million cubic feet per day (mcf/d) is expected to increase to 1100 mcf/d within the next 12 months, Sabri said that the GOP would, in all likelihood, continue to manage winter demand as it has in previous years by limiting gas supplies to industry, especially cement and fertilizer.

LNG is the Answer

3. (SBU) That being said, Sabri said the GOP recognizes that

it must take steps to address its dwindling gas reserves, as well as its ongoing power shortage. Sabri said the GOP would "most likely" approve two floating liquid natural gas (LNG) re-gasification terminals. Both would be located in Port Qasim, an industrial area in Karachi. 4Gas would build a terminal capable of processing 440 to 510 mcf/d; a Vitol-Fauji Oil Terminal (FOTCO) consortium would build a terminal capable of processing 290 mcf/d. He said the projects would require the construction of jetties, land based storage facilities, as well as the use of floating re-gasification and storage units (FRSUs). There currently is no plan to turn the projects into higher-capacity, onshore re-gasification facilities, though Sabri did not rule this possibility out for the future. (Note: The 4Gas project proposal includes a second-phase, onshore facility, which could process up to 2000 mcf/d)

¶4. (SBU) Sabri said the GOP was wary of depending on the spot market for supplies and intended to enter into long-term LNG supply contracts for the facilities. He explained that it would be politically difficult to enter into unpredictable obligations for gas supplies. Having returned October 26 from negotiations in London between Shell and Minister of Petroleum and Natural Resources Naveed Qamar, Sabri said Shell would most likely be the lead gas supplier to the Vitol-FOTCO facility. He mentioned BP, GDF Suez and Mitsubishi, however, as possible fuel suppliers for 4Gas.

¶5. (SBU) Sabri said he would head a three-person committee with Ministry of Planning Energy Member Pervaiz Butt and

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Ministry of Finance Additional Secretary Iqbal Awan to finalize the LNG negotiations by the end of December. He said the projects would then be presented as a combined package to the Economic Coordination Committee (ECC) for final approval.

Logistical Challenges

¶6. (SBU) Sabri said Sui Southern Gas Pipeline Limited (SSGPL) would have little difficulty building 20 km of pipeline necessary to connect off-loaded gas supplies to the existing network. He worried, however, that the Port Qasim Authority (PQA) lacked the operational and technical capacity to dredge a navigation canal, as well as provide night navigation, for LNG tankers in a timely manner. He requested the USG work with the Ministry of Petroleum to push the PQA to move quickly on the port improvements.

More Cost Effective Than Iranian Gas?

¶7. (SBU) The imported gas would be used for power generation, as it is a higher BTU than gas produced domestically, making it unsuitable for household use. Sabri said it was technically possible to water the gas down for domestic use by injecting nitrogen, but that there was no compelling reason to do so. The 800 mcf/d supply of gas could produce roughly 4000 MW of power (Note: The net gain to the power sector will be less than 4000 MW, depending on whether the new gas supplies would be directed towards new power plants or used to replace less efficient fuel oil in existing ones. End note.) Sabri said he would put together a cost study of the landed price of LNG-supplied gas versus gas that could be delivered through the proposed Iran-Pakistan pipeline.

¶8. (SBU) Comment: A viable alternative to the Iran-Pakistan pipeline, importing LNG will be an important step in relieving Pakistan's natural gas and electric power shortages and deserves full USG support. In addition to 4Gas, Post understands at least two other players are looking to enter the LNG re-gasification arena: Associated Group and Engro. While we must be cautious of even appearing to choose winners for the LNG facilities, American-owned companies such as 4Gas

could benefit from OPIC support. Furthermore, the USG can potentially be helpful in addressing some of the potential infrastructure bottlenecks, in particular the deepening of the Port Qasim navigation channel and provision of night navigation equipment. According to one of the largest operators at the port, the cost for these improvements could reach \$100 million. Post will assess the feasibility of providing technical and financial support to the PQA to help make LNG re-gasification a reality. End Comment.
PATTERSON